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Ameritech

Anthony M. Alessi
Director
Federal Relations

July 21, 1994

EX PARTE OR LATE FILED

Mr. William F. Caton
Acting Secretary
Federal Communications Commission
1919 M Street, NW
Room 222
Washington, DC 20554

RECEIVED

JUL 2 1 1994

FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF SECRETARY

Re: **Ex Parte Statement**
Docket No. 94-1

Dear Mr. Caton:

Attached is a copy of a letter dated July 14, 1994 from Mr. Richard C. Notebaert, Chairman and Chief Executive Officer, Ameritech, to Mr. Reed E. Hundt, Chairman, Federal Communications Commission. This letter should be included as part of the record in the above referenced docket.

Sincerely,

Anthony M Alessi

Attachment

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List ABCDE

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Ameritech

Richard C. Notebaert
Chairman and
Chief Executive Officer

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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF SECRETARY

July 14, 1994

The Honorable Reed E. Hundt
Chairman, Federal Communications Communication
1919 M Street, N.W.
Washington, DC 20554

Dear Reed:

I am writing this letter to emphasize to you the pivotal importance of the Commission's review of price cap regulation for local exchange carriers that it is currently conducting in CC Docket 94-1. This review is an opportunity for the Commission to make truly forward-looking changes to the federal regulatory regime—changes that will conform price caps more closely to the original purpose of the plan, adapt to the accelerating rate of technological and competitive change in telecommunications, and perhaps most importantly, significantly stimulate the development of the National Information Infrastructure.

Specifically, I urge the Commission to strongly consider making the following important changes in price caps:

<u>Eliminate Sharing</u>

Sharing, in the form of the current annual review and partial forfeiture of a carrier's earnings, is contrary to the incentive goals of price caps and should be eliminated. This fact has now been empirically demonstrated in a landmark study by Professor Pablo Spiller of the University of California at Berkeley that Ameritech attached to its reply comments. Professor Spiller's study, using actual data from recent years, demonstrates that pure price regulation, without sharing, has a significantly greater effect in stimulating the deployment of new services and technologies than does price caps coupled with earnings sharing. Given the apparent reluctance of interexchange carriers to share access rate decreases with their customers, the decision whether to maintain or eliminate the current burden of sharing comes down to a decision whether to benefit the carriers' shareholders or to provide the local exchange industry a much stronger incentive to develop the NII. The Administration's policy goal of accelerating the deployment of advanced infrastructure will be best served by eliminating sharing.

Ameritech's proposal to eliminate sharing, however, would not roll back the price reductions already taken as a result of past sharing. We propose that current sharing amounts be factored into the price cap indices on a going-forward basis. The elimination of the annual review of a carrier's earnings, however, would be a critical vote by the Commission in favor of the NII.

Do Not Increase the Productivity Offset

The Commission should not increase the productivity offset. Attempting to "recapture" productivity gains achieved by the local exchange industry since the inception of price caps would do serious violence to the Commission's articulated purpose of instituting price cap regulation in the first instance: to encourage local exchange companies to become efficient and invest in new technology. What credibility is there to an "incentive" regulatory plan if the Commission, in this docket, forces us to relinquish what we were incented to achieve in the first instance.

Increase Pricing Flexibility

The current highly restrictive basket/pricing band arrangements should be modified to permit local exchange companies to respond appropriately to increasing competitive pressures. Specifically, local exchange companies should be allowed to achieve substantial "streamlined" regulatory treatment upon their certifying the existence of competition on a central office basis. Moreover, the downward bounds for all other zones, service bands and subindexes should be adjusted and increased to eliminate the potential problem of our being forced to make an unwanted rate increase somewhere in a basket in order to take full advantage of the downward flexibility permitted in a particular subindex. Finally, price zones should be established for local switching similar to those that have been established for trunking. Failure to permit local exchange companies to compete in this fashion denies the full benefits of competition to access customers and sends inappropriate signals to potential market entrants who might hope to take advantage of an artificially high price umbrella.

Eliminate Barriers to the Introduction of New Services

The price cap plan's treatment of optional new services should be completely revised to encourage introduction of new services, specifically by permitting market pricing and streamlined regulatory treatment. Since these services are optional and new, their provision, at whatever price, can only increase customer options. By definition, these are optional services, and we cannot charge more for them than customers are willing to pay. The fact that customers are currently "doing without" makes the market itself the best safeguard for insuring that reasonable prices are charged for these services.

Make No Adjustments for Cost of Capital

The Commission should not change the price cap formula to adjust for purported changes in the cost of capital for local exchange companies. Changes in capital costs are already fully reflected in the GNPPI inflation factor currently included in the price cap formula and no further adjustments are warranted.

I hope this brief summary assists you in your review of the current price cap plan. The Commission has before it an important opportunity to restore price caps to a plan that meets its intended purpose of improving the telecommunications infrastructure of this nation. State commissions and legislatures throughout the country are endorsing pure price regulation and rejecting sharing and other vestiges of rate of return regulation precisely because of the incentives to invest that pure price regulation creates. I urge the Commission to join with this enlightened thinking as it considers reform of federal price caps.

Sincerely,

Dick